

WASHINGTON, D.C. 20505

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25 JUL 1969

MEMORANDUM FOR: The Honorable Gerard Smith
The Director, Arms Control and
Disarmament Agency

SUBJECT : Strategic Arms Limitation
Verification: Monitoring
of National Budgets

1. Over the past few years there has been a substantial effort to ascertain whether the monitoring of Soviet economic data might provide a useful supplement to other means of checking possible arms control agreements between the US and USSR. These studies indicate that the monitoring of official Soviet economic data of the kind now available probably would not make a very significant contribution to the overall verification effort. There are some indications, however, that the forthcoming strategic arms limitation talks may offer an opportunity to discuss with the Soviets exchanging more useful information to supplement national means of verification.

2. The existing data problem is illustrated by the following brief comparisons of the budgetary information published annually by the US and Soviet governments:

-- The US Budget publication is a comprehensive document which normally runs about 1700 pages including the detailed statistical appendix. In the FY 1970 US Budget document, the information on Department of Defense programs, appropriations and expenditures alone covers about 150 pages.

-- The USSR releases only a few summary statistics on government expenditures and income. These data can easily be contained

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in a one or two page table, and even their usefulness is impaired by ambiguous definitions and substantial unexplained residuals. The USSR announces only a single figure each year for defense expenditures.

3. The lack of detail and adequate explanations of the published Soviet budgetary data have led to the rejection of the announced "defense" expenditure figure as a reliable representation of total expenditures for defense activities in the USSR--at least as such activities are understood in the US. The inclusion of expenditures for various defense related activities--e.g., military research and development--in other budget categories, rather than outright falsification of the size of the overall budget, is believed to account for the discrepancy between announced "defense" outlays and actual total defense spending in the Western sense. Under present conditions, the USSR can easily alter its budgetary definitions and practices without such changes being announced or necessarily detected.

4. To overcome this data problem, this Agency has for several years been providing the US Government with estimates of Soviet defense spending based on direct costing of known and estimated Soviet forces.

5. Past statements by Soviet leaders made in the context of arms control discussions suggest that there might be a present opportunity to greatly increase our understanding of the Soviet budgetary structure and financial procedures. In July 1965, Premier Kosygin and Governor Averell Harriman held a private conversation in Moscow which included a lengthy discussion of defense budgets. The official memorandum of conversation includes the following:

"Governor Harriman quickly responded that Secretary McNamara was ready to appoint an expert to meet either in Moscow or Washington to consult with a Soviet expert on mutual budgetary structure and practices in order that there could be understanding of each

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other's methods. Kosygin responded that 'if this issue were connected with disarmament measures', then a need might indeed arise to examine each other's procedures." (Department of State Airgram, A-151 (Moscow), 26 July 1965, Secret Exdis)


Kosygin's statement on the probable willingness of the USSR to exchange budgetary information with the US was later confirmed by Foreign Minister Gromyko who made an almost identical statement to Secretary of State Rusk in September 1965.

6. If you believe that the budgetary approach to monitoring is worth pursuing further, CIA is ready to provide any support necessary to develop it for the further consideration of the US Delegation.

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Director
Strategic Research

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